Student Loan Defaulters Compared with Repayers: A Texas Case Study

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This research compares student loan defaulters' and repayers' attitudes about vocational education in Texas. Interviews with loan recipients indicate that student loan defaults are affected by how much students are pressured to enroll in a program, their understanding of the loan program when they first sign an application, and how well their vocational education equips them to take a job. Such findings are increasingly important to policymakers, as the struggle for federal dollars increases and vocational students remain one of the largest groups of recipients and defaulters in the Federal Stafford Loan Program (formerly the Guaranteed Student Loan Program).

The Federal Stafford Loan Program (hereinafter referred to as the GSL Program) began in 1965 as a federal program designed to provide funds for college education through unsubsidized loans to middle-income families (Gladieux, 1989, p. 2). The GSL Program was targeted toward families that either did not qualify for need-based grants or were not able to finance their children's education without some form of assistance. (Recently enacted federal legislation reinstates the concept of using unsubsidized loans for students who don't demonstrate financial need.)

Although federal funding for need-based scholarships has increased over the years, it has not kept up with the growing pool of applicants and recipients. Indeed, the growth of the proprietary sector during the 1980s has contributed substantially to increases in the number of awards to students over the last decade. The result has been an overall decline in funding relative to tuition fees as the size of awards fails to keep pace with inflation. Despite these limitations, GSLs still remain a primary source of support for low-income students. That is true not only for students attending two-year and four-year colleges and universities, but also for students in short-term vocational programs (Ibid, p. 2–3; Lyke et al., 1991, p. ii; Mortenson, 1990b, p. 1–3). In this text "vocational" refers to educational programs that instruct students in career, trade, or business skills.

GSL Default and Vocational Students

The cost of student loan defaults to the federal government has risen dramatically in the last twenty years. It climbed from $100 million per year in the 1970s to more than $1 billion per year by the mid-1980s (Cronin, 1989, p. 68). In fiscal year 1991, student defaults amounted to $3.6 billion (*Education Daily*, 1991). Although much attention has focused recently on financial aid to college students and their families (Gladieux, 1989; Mortenson, 1989 a,b,c, and 1990 a,b), relatively little research has been done on the funding of students involved in vocational training. The need to discover patterns of financial aid use by

vocational students becomes more important as it becomes clearer that vocational students have contributed substantially toward the recent escalation in the default rate. As the Federal Stafford Loan default rate continues to rise, researchers struggle to identify the socioeconomic factors contributing to what currently is one of the most serious problems facing higher education.

According to Cronin, the largest source of default derives from students in metropolitan areas attending community colleges and proprietary schools (1989, p. 68). "Proprietary" schools are those vocational programs that operate on a for-profit basis. Lyke defines them as post-secondary vocational schools that are privately owned and operated for profit (Lyke et al., 1991). Cronin believes the high default rate by both vocational and community college students reflects the fact that a disproportionally high percentage of first-year students in all types of educational programs default on their loans (1989, p. 68). He therefore recommends that Congress allow a relatively low loan amount for first-year students, while raising loan limits for college and university students beyond their first year of study (1989, p. 70). While vocational students receive about one-third of all guaranteed student loans, their 40% default rate is twice the rate of community college students and four times that of students in four-year institutions (Lyke et al., 1991 p. iii).

In 1989 the federal government introduced measures to reduce the proportion of defaults on guaranteed student loans. The regulation recommended measures for institutions with high default rates including improved screening practices, academic counseling, and job placement, as well as increased loan information dissemination (Department of Education, 1989).

Investigations by W.W. Wilms, R.W. Moore, and R.E. Bolus (1987) suggest that students' background characteristics are the chief predictors of default rates (41-54). More recent studies focus less on the background characteristics of individuals than on their experience and relationship to educational institutions. D.W. Brenemen's findings, part of a series assessing student loan policy alternatives for the federal government, indicate that default rates for vocational students vary with the quality of the education they receive (1989, p. 152). B.P. Bosworth (1989, p. 132) supports Brenemen's argument when he maintains that the high default rate among vocational students is based on two factors. First, students attending vocational programs often feel the education they received did not appropriately prepare them for the job market. Second, students may not realize that upon signing a contract they are taking out a loan.

GSL Defaults and Vocational Institutions

As Brenemen, Bosworth, and M.S. McPherson suggest, the problem of GSL defaults may rest, to some degree, with the vocational institutions themselves, particularly the proprietary schools (Bosworth, 1989; McPherson, 1989, p. 155). In fiscal year 1989, 38% of all GSLs went to students registered in proprietary schools. In the same fiscal year, proprietary school students accounted for 77% of the defaults (Baumann, 1991).

In light of such statistics, Brenemen questions "whether it makes sense to finance high-risk students in institutions with questionable motivation" (Brenemen, 1989, p. 150). In his view, the "shoddy behavior" of certain proprietary institutions demands a radical restructuring of the tripartite apparatus regulating private accreditation: state licensing, federal eligibility, and certification (Brenemen, 1989, p. 152; c.a. Lyke et al., 1991, p. iii).

Bosworth argues that proprietary institutions require incentives to ensure they provide students with a quality education and the necessary encouragement to complete their programs (Bosworth, 1989, p. 132). A primary consideration in assessing the "value" of a vocational program is determining what advantage it gives a student once he or she enters the job market. A recent study concerning the impact of proprietary education on the labor market (Lyke et al., 1991), however, was inconclusive in this regard. It did find that both male and female proprietary school graduates command higher earnings than employees who had attended only high school. However, it concluded that much of this difference, particularly in the case of men, derived from factors other than their attendance in vocational programs. These factors included socioeconomic status, educational expectations, and orientation toward work (Lyke et al., 1991, p. 21, 32–35).

Much of the research up to this point has focused on attributing "fault" to either individual borrowers or educational institutions. This approach does little to illuminate the complex set of attitudes and behaviors characterizing the relationship between indebted individuals and educational and financial institutions. Understanding how students and loan institutions interact is essential for two reasons. First, researchers and policy planners gain more insight into the personal and institutional dynamics and the socioeconomic factors involved. Second, new understandings can lead to the development of a long-term solution, which is socially and economically viable. The findings presented in the following sections are important for both reasons.

Defaulters and Repayers: A Case Study of Texas

The research project described in this report compares the experiences and attitudes of two groups of vocational education students: guaranteed student loan defaulters and repayers. Preliminary conclusions suggest that students' deliberations about enrolling in an educational program, their knowledge of the loan program, and the nature of their post-program employment experiences are related to their loan repayment status.

Research Methodology

Survey Sample

The primary research effort consists of a series of telephone interviews with loan recipients in the publicly supported Texas State Technical Institute (TSTI) system and in proprietary vocational schools in Texas. The total sample of 100 students was divided evenly into four groups of respondents shown in Table 1. The Texas Guaranteed Student Loan Corporation (TGSLC) drew a random list of students in each category.

Interviewers encountered a number of obstacles in locating student loan recipients through TGSLC records. To begin with, interviewers

TABLE 1
Survey Sample Breakdown

	TSTI Institutions	Proprietary Schools
Student Loan Defaulters	25 students	25 students
Student Loan Repayers	25 students	25 students

could not include in the sample recipients who failed to provide TGSLC with forwarding addresses and phone numbers. Of the 653 student names provided by TGSLC, interviewers were only able to reach 100. Nearly 500 students were not reachable at the phone number on record. A large proportion of the recorded telephone numbers on record were for bank references rather than for the students themselves. In other cases, students had left only their original address (given several years previously when they first applied for the loan).

Student loan defaulters were more difficult to reach than repayers. Interviewers had to try twice as many numbers to reach 50 defaulters, as they did to reach 50 repayers. Overall, the nature of the difficulties in reaching students suggests that those borrowers who were unreachable were more likely to be highly mobile, in default, and perhaps less able to obtain or hold a job. They also were less attached to the references who assisted them in the past three years and less likely to have found a job in the immediate area. Hence, these students probably had different attitudes and experiences than the students ultimately reached by telephone. Therefore, the differences documented here between loan defaulters and repayers almost certainly were less pronounced in the study than they were in reality.

Interviews

Trained graduate students from the LBJ School of Public Affairs interviewed each loan recipient according to a structured protocol. The interview covered six main topics: demographics; initial contacts with school attended; initial information concerning guaranteed student loans; perceived educational program content; program completion and graduation; and experience after completing the educational program.

Questions were close-ended with structured options provided for the respondent. However, many respondents editorialized freely during their interviews, expressing strong feelings about the education they had received and the loans they had assumed. Several respondents refused to answer some questions during their interviews.

Site Visits

In addition to completing interviews with a sample of loan recipients, members of the research team also visited ten proprietary vocational education schools in the role of students applying for admission. Insights gained from these visits enhanced data from the loan recipient interviews. The researchers selected ten institutions from records at the TGSLC, two in each of five cities. In each city, they chose one school

with a very high default rate, and one with a default rate close to or below average.

Interview Results

These results focus on a comparison between defaulting and repaying loan recipients. It also includes several cases where there were significant differences between the experiences of loan recipients in the TSTI system and those in the proprietary sector.

The Population

The population of loan recipients closely matched the overall Texas labor force in terms of gender, ethnicity, age, current employment status, and income level. Forty-three percent of the respondents were male, and 57% were female. The ethnic diversity in our sample of loan recipients was similar to the distribution found in the Texas adult population: 51% of the respondents were White; 27% were Hispanic; 17% were Blacks. Asian-Pacific Islanders and native Americans represented 2% and 1% of the sample, respectively. White and Hispanic students were somewhat more likely to attend TSTI schools; Black students were somewhat more likely to attend proprietary schools.

People in the sample were poorer, younger, and less likely to be employed than the overall Texas labor force. Still, 72% of the sample were employed, and almost 53% worked 35 to 45 hours per week. Respondents employed part-time reported working from ten to just under 40 hours per week. Forty-two percent of the respondents had personal incomes below $10,000. Thus they were employed in jobs that paid so little, it was presumably inadequate for making loan repayments.

Factors Related to Loan Default and Repayment

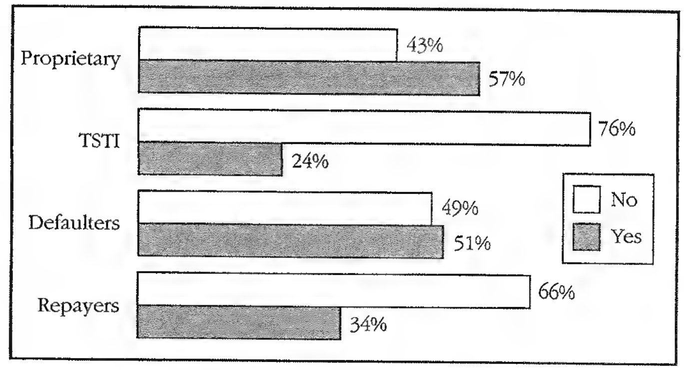
Interview data indicated that three main factors had a direct relationship to the rates of default and repayment among student loan recipients:

- the degree of pressure exerted upon students to enroll in a particular program;
- the degree to which their vocational education has prepared them to find a job; and
- the degree to which the borrower understood the terms of the loan program when he/she first signed the agreement/application.

In an effort to get individuals to commit themselves to their educational programs, vocational schools often ask prospective students to sign some form of contract during their initial visit to the institution. Study results show that pressure to enroll was greater at private vocational schools, than it was in the TSTI system ($p < 0.01$). Fifty-seven percent of proprietary school students said they faced these pressures compared to just 24% of TSTI students (See Figure 1).

Strong encouragement for prospective students to apply for a loan and register in a program means that many enroll without consideration of any other educational or financial options. Although not statistically significant, interview results suggest that loan recipients who did not

FIGURE 1
Respondents Who Were Asked to Sign a Contract on Their First Visit



Percentage of Respondents

TSTI = Texas State Technical Institute

consider other schools had a higher default rate than those loan recipients who considered more than one option ($p < 0.13$). Fifty-one percent of the defaulters said school representatives asked them to sign a contract on the first day, whereas only 34% of the repayers responded similarly ($p < 0.085$).

Visits by members of the research team supported these findings. They provided examples of situations in which schools exerted considerable pressure on visiting researchers to sign the necessary documents for both admission and a guaranteed loan on the first day. A case in point: when one researcher said he forgot to bring his checkbook to pay the $25 enrollment fee, the recruiter suggested he use an automatic teller to get the money at once. The recruiter, on the pretext of reserving him an opening at the school, also urged the applicant to send the fee even if he had not finalized his plans.

In addition to pressure put on individuals to enroll and take out loans, there was little indication of any screening of prospective students. On two occasions researchers were asked to take assessment tests. Apart from being too long to complete, the recruiters said these tests "did not matter anyway." When researchers asked if references or recommendations were necessary, one recruiter dismissed them "with a laugh."

According to interview data, the majority of schools use the prospect of employment to encourage individuals considering enrollment in their programs. Overall, 65% of interviewees said the schools assured them that they would find a job after graduation. However ($p < 0.03$), 76% of the defaulters received such assurances compared to only 53% of repayers (See Figure 2). Whether in default or repayment, many of these loan recipients expressed resentment toward the schools when they experienced difficulties finding a job after they had completed their training.

Interview results indicated that loan recipients who had a job within three months of leaving the program were more likely to repay their loans. Sixty-two percent of the loan recipients interviewed found jobs within three months of leaving their educational program. Yet, as Figure 3 illustrates, there was a significant ($p < 0.01$) difference between repayers and defaulters. Seventy-two percent of repayers were working within three months of leaving the educational program. In contrast, just 46% of defaulters were employed. Although not statistically significant, a slightly higher percentage of TSTI graduates were employed within three months than graduates of proprietary programs (65% as compared to 58%).

Other results suggested that loan recipients who felt equipped for specific jobs by the education they received were also more likely to

FIGURE 2
Respondents Who Were Assured a Job

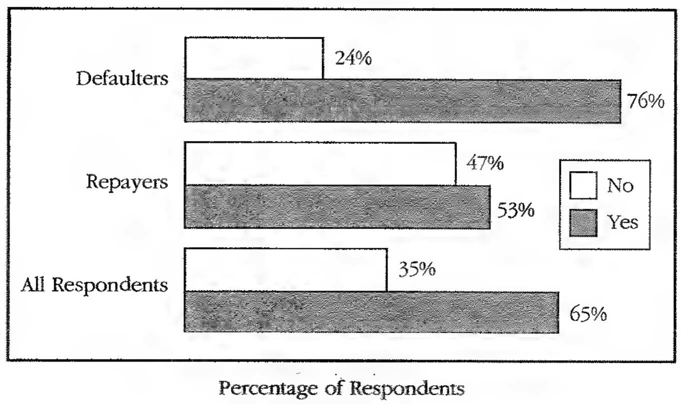
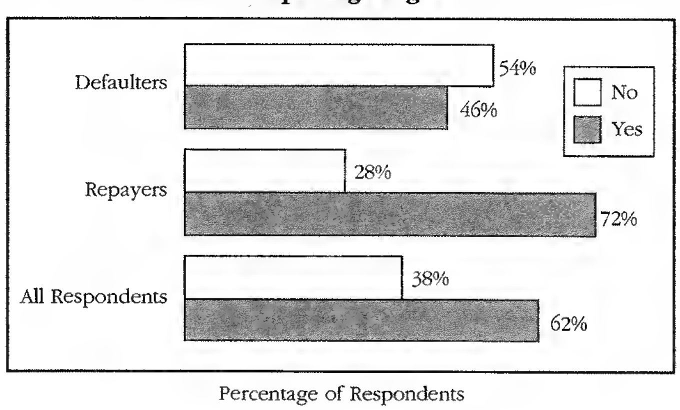


FIGURE 3
Respondents Employed Three Months After Completing Program



repay ($p < 0.10$). Furthermore, overall, 53% of the employed loan recipients said they found jobs related to their training. However, as Figure 4 indicates, of the employed loan recipients, 65% of repayers had jobs related to their schooling, but only 33% of defaulters had such jobs ($p < 0.03$).

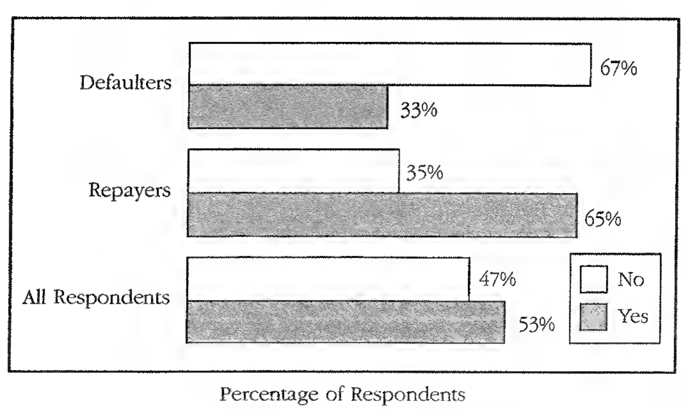
Through school visits researchers discovered a considerable range of job placement activities practiced at various institutions. An administrator at one school pointed to a box of index cards on the counter: "That's our placement system. You may look in that box any time you wish." Other programs talked generally about 90% placement rates and the availability of a lifetime placement service. In fact, the majority of programs visited provided little specific information about how they managed placement, how successful placement efforts were, or the kinds of jobs recent graduates actually had found.

Most respondents had a general knowledge of the TGSLP. Over 90% of the respondents understood from the beginning that they had an obligation to repay their student loans, and almost 78% were cognizant of their overall debt burden. Yet, interviews demonstrated that loan recipients with specific knowledge about how the loan system worked, particularly deferments, were more likely to repay their debts.

Fewer defaulters understood the basics of the loan program compared to repayers. Over 11% of defaulters claimed that they did not know they had to repay their student loans, but only 2% of repayers did not know ($p < 0.08$). Although not statistically significant, defaulters and repayers also differed in knowledge of their total loan amount: over 27% of defaulters, compared to 16% for repayers, did not know the total level of their borrowing.

Students at proprietary schools differed from students in the TSTI system in terms of their knowledge of the loan program. Whereas only 15% of TSTI respondents ($p < 0.11$) claimed to be unaware of their total loan amount, 29% of proprietary attenders did not know the level of their loan burden. The most striking comparisons involve knowledge

FIGURE 4
Respondents in Jobs Related to Training Received



of deferments. (Please see Figure 5.) Thirty-five percent of defaulters were unaware that the deferment option was available, compared to just 10% of repayers ($p < 0.01$). The distinction between the groups is even greater in terms of whether a respondent had a deferment: whereas 64% of repayers recalled taking deferments, only 36% of defaulters had ($p < 0.01$). Thus, awareness and use of deferments appear related to whether or not a borrower defaults. (Please see Figure 6.)

Researchers visiting proprietary schools in the role of applicants found detailed information on loan responsibilities provided in just one case in ten. In no cases did schools provide information on deferments.

Conclusions

Repayment of student loans varies directly with loan recipients' deliberation at the time of application and registration, their knowledge of the loan program, and whether they find employment soon after completion of the education program.

FIGURE 5
Respondents Who Took Deferments

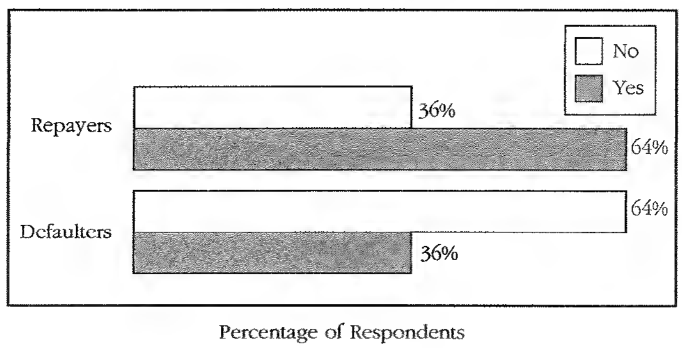
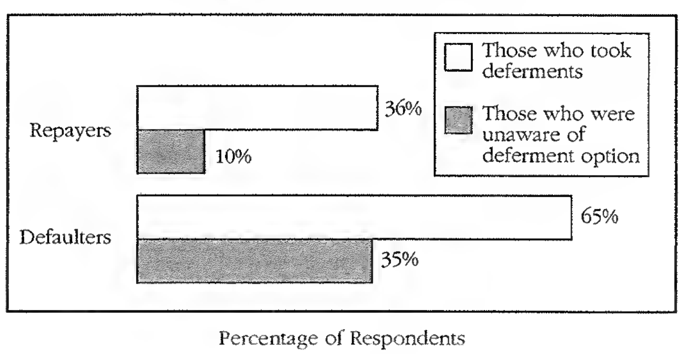


FIGURE 6
Respondents and Deferments



Findings demonstrate that an individual's ability or willingness to repay loans varies with several factors: whether there was an initial screening of applicants; whether the educational program was completed; and whether the loan recipient was successfully placed in education-related, paid employment soon after graduation. Interview findings substantiate claims that both recruitment and placement practices (e.g., entry into and transition from the program to place of employment) have a significant effect on loan repayment. Supervision of the process by which vocational education programs recruit and ultimately place students, therefore, may be essential for significant improvement in the guaranteed student loan default rate.

The research reported here supports the already well-documented connection between adequately-paid employment and repayment status. In addition, it offers further evidence that ultimately controlling default rates depends, in the long run, on both educational quality and job placement. Although many students find employment without formal job placement assistance, loan recipients are more apt to repay when their education not only leads to employment, but employment in the field for which they were trained. These findings support the need for recommendations such as those included in the 1989 regulation described earlier.

While this report offers important findings about the relationship among loan recipients, financial and educational institutions and policy recommendations for those institutions, it points to the need for future research which would take into account a larger set of variables, such as the length of time loan recipients have been out of school, the size of their debt, and program completion. Testing an increased number of variables within a panel study format (e.g., tracing a cohort of loan recipients over an extended period of time subsequent to their loan application) would provide researchers and policymakers with a larger, more diachronic body of quantitative and qualitative data. These data would offer a more detailed description of the loan recipient population and a better understanding of the complex framework of socioeconomic factors, both individual and institutional, that lead to the high rate of student loan default. ✦

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